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TO RUEHC/SECSTATE WASHDC 8249  
INFO RUEHRI/AMCONSUL RIO DE JANEIRO 3940  
RUEHRG/AMCONSUL RECIFE 6296  
RUEHSO/AMCONSUL SAO PAULO 9316  
RUEHBU/AMEMBASSY BUENOS AIRES 4617  
RUEHAC/AMEMBASSY ASUNCION 5964  
RUEHMN/AMEMBASSY MONTEVIDEO 6767  
RUEHBO/AMEMBASSY BOGOTA 4130  
RUEHPE/AMEMBASSY LIMA 3383  
RUEHSG/AMEMBASSY SANTIAGO 6114  
RUCPDOC/USDOC WASHDC  
RHEBAAA/USDOE WASHDC  
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STATE PASS USTR - SCRONIN  
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USDOC FOR 4332/ITA/MAC/WH/OLAC/MCAMPOS  
USDOC FOR 3134/ITA/USCS/OIO/WH/RD/DRAMBO  
AID/W FOR LAC  
DOE FOR GWARD  
TREASURY FOR OASIA - JHOEK

E.O. 12958: N/A

TAGS: ETRD ENRG KIPR EAGR SENV BR

SUBJECT: Brazil: Under Secretary Burns Meets with Minister of Development, Industry, and Commerce Furlan

¶1. (SBU) Summary. During Under Secretary of State for Political Affairs R. Nicholas Burns' February 7-8, 2007 visit to Brasilia, he met with Minister of Development, Industry and Commerce Luiz Fernando Furlan and his management team. The friendly, wide-ranging conversation touched upon issues such as the bilateral Commercial Dialogue, IPR enforcement, expanding trade between the two countries, prospects for a bilateral investment treaty and a bilateral tax treaty, and biofuels. On biofuels, Minister Furlan urged the USG to eliminate its 54 cent per gallon levy on certain ethanol imports as he said that this measure made it more difficult for Brazil to supply U.S. consumers. Ambassador will continue to press the USG's agenda in his continuing dialogue with the Minister.  
End Summary.

¶2. (SBU) On February 8, U/S Burns, accompanied by WHA A/S Thomas Shannon, Special Energy Coordinator Greg Manuel, S/P Member William McIlhenny, P Special Assistant Heide Bronke and the Ambassador, met with Brazilian Minister of Development, Industry, and Commerce Luiz Fernando Furlan. Joining Minister Furlan was his entire management team: Secretary of Production Development Antonio Sergio Martins Mello, Secretary of Foreign Trade Armando de Mello Meziat, Foreign Trade Chamber Director Mario Mugnaini, Export Promotion Agency Chief Juan Quiroz, and International Affairs Advisor Jose Mauro da Couto.

#### The U.S.-Brazil Commercial Dialogue

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¶3. (SBU) Minister Furlan opened the meeting by expressing his satisfaction with the useful exchanges over the past eight months pursuant to the U.S.-Brazil Commercial Dialogue, which Furlan chairs along with USDOC Secretary Gutierrez. The Dialogue's IPR Working Group had made a great deal of progress on IPR, he noted, with the GOB patent agency hiring 440 new examiners in an effort to clear its patent backlog. The Standard's Working Group was also proceeding well as NIST was moving forward with its Brazilian counterpart

"INMETRO" on creating a common standard for ethanol. Also, in November 2006, MDIC officials responsible for the Customs Facilitation Working Group had visited express delivery service facilities in Tennessee.

#### Increasing Bilateral Engagement

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¶ 4. (SBU) Furlan declared that Brazil and the U.S. needed to do more to strengthen trade and investment ties between the two countries. Now that the U.S. Congress had extended the GSP program, he did not have to raise this as an issue with U/S Burns, he noted. Intensifying our bilateral relationship would require concrete actions, Furlan continued, much like the ideas floated in former D/S Zoellick's January 8 Wall Street Journal op-ed. (Note: That article called for greater hemispheric integration, including a multilateral trade pact of the willing, to counter populist voices. End note.) While U.S.-Brazil trade had increased, it was not keep pace with the gains in trade between Brazil and other regions of the world. Five years ago the region which traded most with Brazil was the United States, followed by the E.U., he observed. Now, although the U.S. is still Brazil's largest single-country trading partner, in terms of regions, Latin America was number one, followed by the EU and then the U.S. Amb. Sobel pointed out that for the United States, our trade with Brazil was relatively small as a percentage of our total world trade: 2.4 percent several years ago versus only 1.9 percent now.

¶ 5. (SBU) U/S Burns stated that U.S. relations with Brazil were good but that they could be better. Our two presidents would meet twice within the next month, he said, and given the excellent relationship they enjoyed, this was an opportunity to find the best way forward on trade. In view of the large size of our respective markets, he

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continued, it was hard to believe that the two countries did not have in place a Bilateral Investment Treaty (BIT) or a Bilateral Tax Treaty (BTT). Furlan replied that the GOB's interagency Foreign Trade Chamber was working on a model BIT. (Post Comment: They have started, but the model text does not contain key provisions such as binding arbitration for investor-state disputes. End Comment.) As for a BTT, Furlan acknowledged that Brazilian companies are investing more and more in the United States and would benefit from the signature of such an accord. However, he said that the problem was that the Finance Ministry would likely oppose any measure that resulted in the loss of tax revenue - no matter the amount.

¶ 6. (SBU) Furlan noted that a number of economic/commercial ideas were on the table as policymakers from both sides prepared for the upcoming POTUS visit. He pointed out that he supported the concept of a bilateral CEO Forum, which could be set up as an informal fifth working group under the bilateral Commercial Dialogue. U/S Burns stated that a similar mechanism had been established between the U.S. and India and had enjoyed great success. The U.S.-India Forum, he said, had helped to dismantle key non-tariff barriers and increase business confidence.

#### Biofuels Cooperation

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¶ 7. (SBU) On biofuels, Furlan declared that this was an issue on which Brazil and the U.S. could cooperate to both countries' mutual benefit. Already, he observed, U.S. companies were investing in the Brazilian ethanol industry. He related that he had recently dined with ADM executives visiting Brazil and they reported that the firm was establishing a biodiesel facility in Argentina which would produce 140,000 tons per year. Furlan then embarked upon an extended pitch to get the USG to eliminate its 54 cent per gallon tax on certain ethanol imports. Brazilian policymakers would be raising the 54 cent per gallon tariff with their USG counterparts, he warned, at every opportunity. He stated while that the impact of such a move in the United States would be small, in Brazil it would be big. It might be more cost-effective to supply California with duty-free ethanol from Brazil, he speculated, rather than transport ethanol from the mid-western United States. Finally, Furlan mused that it might be worthwhile for the USG to establish a specific

ethanol quota for Brazil, much as had been done for the Central American countries under CAFTA.

¶18. (SBU) U/S Burns responded that the debate within the U.S. on energy was entering a dynamic phase given the distorting effect that oil was having on key suppliers such as Iran and Venezuela. With respect to ethanol imports, he pointed out that under the U.S. system the Congress has responsibility for setting tariffs and that the Executive Branch could not speak for the Congress. That said, he noted that the idea of eliminating the tariff on imported ethanol had sparked considerable debate within the United States. He wondered whether this issue was academic as it did not appear that Brazil currently had sufficient excess capacity to send significant amounts of additional exports to the U.S. Furlan acknowledged the capacity problem, but averred that the sugar cane producers planned to bring on significant additional acreage within the next few years.

¶19. (U) This cable was cleared by U/S Burns' delegation prior to transmission.

Sobel